



OHIO AUDITOR OF STATE
KEITH FABER



**SOUTHWEST OHIO PREPARATORY SCHOOL
HAMILTON COUNTY**

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OHIO AUDITOR OF STATE KEITH FABER



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INDEPENDENT AUDITOR'S REPORT

Southwest Ohio Preparatory School
Hamilton County
5555 Little Flower Avenue
Cincinnati, Ohio 45239

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Southwest Ohio Preparatory School, Hamilton County, Ohio (the School), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Southwest Ohio Preparatory School, Hamilton County, Ohio, as of June 30, 2019, and the changes in financial position and its cash flows thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 17 to the financial statements, the School's sponsor, St. Aloysius, placed the School on probation as of January 17, 2020, due to declining enrollment and increasing debt. On February 7, 2020, the School presented a plan to the sponsor to reduce expenditures, reduce debt, and increase enrollment. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *management's discussion and analysis*, and schedules of net pension and other post-employment benefit liabilities and pension and other post-employment benefit contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated XX, 2020, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.



Keith Faber
Auditor of State

Columbus, Ohio

March 23, 2020

Southwest Ohio Preparatory School
Hamilton County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019
(Unaudited)

The management's discussion and analysis of the Southwest Ohio Preparatory School (the "School") financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2019. The intent of this discussion and analysis is to look at the School's financial performance as a whole. Readers should also review our notes to the basic financial statements and the financial statements themselves to enhance their understanding of the School's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented, and is presented in the MD&A.

Financial Highlights

Key financial highlights for the School are as follows:

- The liabilities and deferred inflows of resources of the School exceeded its assets and deferred outflows of resources at the close of the most recent fiscal year by \$353,387 (negative net position).
- At fiscal year-end, the School's total assets increased \$233,633 and total liabilities increased \$1,544,760 in the same period.
- The School had an operating loss of \$910,030 during the fiscal year.

Reporting the School's Financial Activities

Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows

The statement of net position and the statement of revenues, expenses and changes in net position answer the question, "How did we do financially during the fiscal year?" The statement of net position includes all assets, deferred outflows of resources, liabilities and deferred inflows of resources, both financial and capital, and short-term and long-term, using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

This statement reports the School's net position; however, in evaluating the overall position and financial viability of the School, non-financial information such as the condition of the School's property and potential changes in the laws governing charter schools in the State of Ohio will also need to be evaluated.

The statement of revenues, expenses and changes in net position reports the changes in net position. This change in net position is important because it tells the reader that, for the School as a whole, the financial position of the School has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

No assurance is provided on these financial statements.

Southwest Ohio Preparatory School
Hamilton County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019
(Unaudited)

The statement of cash flows provides information about how the School is meeting the cash flow needs of its operations.

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the School's net pension liability.

Financial Analysis

Table 1 provides a summary of the School's net position for 2019 and 2018:

	2019	2018
Table 1		
Net Position		
Assets:		
Current and Other Assets	\$ 216,454	\$ 18,725
Capital Assets, Net	146,735	110,831
Total Assets	363,189	129,556
 Deferred Outflows of Resources	 1,425,129	 100,039
Liabilities		
Current Liabilities	592,766	366,984
Other Long-Term Liabilities	-	15,000
Net Pension Liability	1,272,628	-
Net OPEB Liability	61,350	-
Total Liabilities	1,926,744	381,984
 Deferred Inflows of Resources-Pensions	 214,961	 -
Net Position:		
Net Investment in Capital Assets	146,735	110,831
Restricted	48,392	-
Unrestricted	(548,514)	(263,220)
Total Net Position	\$ (353,387)	\$ (152,389)

No assurance is provided on these financial statements.

Southwest Ohio Preparatory School
Hamilton County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019
(Unaudited)

Current and Other Assets increased as a result of timing of receipt of federal grant at year end resulting in an increase of intergovernmental receivable in the amount of \$114,569. The net pension and net OPEB asset/liabilities and related deferred inflows and outflows of resources increased significantly in comparison with the prior year fiscal year-end. Fiscal year 2019 was the first year the School was required by GASB Statements 68 and 75 to report these amounts.

Table 2 provides a summary of the School's change in net position for 2019 and 2018:

Table 2
Changes in Net Position

	<u>2019</u>	<u>2018</u>
Operating Revenues:		
Foundation Revenues	\$ 1,157,586	\$ 1,365,751
Other Unrestricted Grants-In-Aid	42,902	46,131
Economic Disadvantaged Funding	103,328	133,657
Miscellaneous Revenue	-	1,251
Total Operating Revenue	<u>1,303,816</u>	<u>1,546,790</u>
Operating Expenses:		
Salaries	586,105	708,397
Fringe Benefits	251,516	96,935
Purchased Services	1,138,344	1,027,404
Materials and Supplies	155,110	124,560
Depreciation	49,756	20,595
Other Operating Expenses	33,015	16,749
Total Operating Expenses	<u>2,213,846</u>	<u>1,994,640</u>
Operating Loss	<u>(910,030)</u>	<u>(447,850)</u>
Non-Operating Revenues (Expenses):		
Federal and State Grants	715,246	294,564
Other Non-Operating Revenue	935	897
Interest Expense	(7,149)	-
Total Non-Operating Revenues (Expenses)	<u>709,032</u>	<u>295,461</u>
Change in Net Position	(200,998)	(152,389)
Net Position, Beginning of Year	(152,389)	-
Net Position, End of the Year	<u>\$ (353,387)</u>	<u>\$ (152,389)</u>

Federal and state grants increased in fiscal year 2019 due to the School being eligible to receive more grants in their second year of operation.

No assurance is provided on these financial statements.

Southwest Ohio Preparatory School
Hamilton County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019
(Unaudited)

Total Expenses increased in comparison with the prior fiscal year. This increase is primarily the result of a increase in pension/OPEB expense from \$0 in fiscal year 2018 to \$224,447 in fiscal year 2019. This increase is the result of the School being required required by GASB Statements 68 and 75 to report these amounts.

Capital Assets

At fiscal year-end, the School had \$146,735 invested in capital assets. This balance represents the amount in which current year capital acquisitions of \$85,660 exceeded current year depreciation of \$49,756. See Note 5 of the basic financial statements for additional details.

Debt

At fiscal year-end, the School's loans payable balance was \$204,937. This balance represents new loans totaling \$50,000 less principal payments of \$30,063. For more information on debt, see Note 6 to the basic financial statements.

Contacting the School's Financial Management

This financial report is designed to provide a general overview of the finances of the Southwest Ohio Preparatory School and to show the School's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to the Treasurer of Southwest Ohio Preparatory School, 5555 Little Flower Avenue, Cincinnati, Ohio 45239.

No assurance is provided on these financial statements.

**SOUTHWEST OHIO PREPARATORY SCHOOL
HAMILTON COUNTY**

STATEMENT OF NET POSITION
AS OF JUNE 30, 2019

Assets:

Current Assets	
Cash and Cash Equivalents	\$ 6,544
Intergovernmental Receivable	125,905
Prepaid Items	105
Total Current Assets	132,554
Noncurrent Assets	
Depreciable Capital Assets, Net	146,735
Net OPEB Asset	83,900
Total Noncurrent Assets	230,635
Total Assets	363,189

Deferred Outflows of Resources:

Pension	1,170,550
OPEB	254,579
Total Deferred Outflows of Resources	1,425,129

Liabilities:

Current Liabilities	
Accounts Payable	317,381
Accrued Wages Payable	47,401
Intergovernmental Payable	20,835
Accrued Interest Payable	2,212
Line of Credit Payable	204,937
Total Current Liabilities	592,766
Noncurrent Liabilities:	
Net Pension Liability	1,272,628
Net OPEB Liability	61,350
Total Noncurrent Liabilities	1,333,978
Total Liabilities	1,926,744

Deferred Inflows of Resources:

Pension	80,564
OPEB	134,397
Total Deferred Inflows of Resources	214,961

Net Position:

Net Investment in Capital Assets	146,735
Restricted	48,392
Unrestricted	(548,514)
Total Net Position	\$ (353,387)

No assurance is provided on these financial statements.
See accompanying notes to the basic financial statements.

**SOUTHWEST OHIO PREPARATORY SCHOOL
HAMILTON COUNTY**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

Operating Revenues:	
Foundation Payments	\$ 1,157,586
Other Unrestricted Grants	42,902
Economic Disadvantaged	103,328
Total Operating Revenues	1,303,816
 Operating Expenses:	
Salaries	586,105
Fringe Benefits	251,516
Purchased Services	1,138,344
Materials and Supplies	155,110
Depreciation	49,756
Other	33,015
Total Operating Expenses	2,213,846
Operating Loss	(910,030)
 Non-Operating Revenues (Expenses)	
Federal subsidies	712,746
State subsidies	2,500
Other Non-Operating Revenue	935
Interest expense	(7,149)
Total Non-Operating Revenues (Expenses)	709,032
Change in Net Position	(200,998)
Net Position, Beginning of Year	(152,389)
Net Position, End of Year	\$ (353,387)

No assurance is provided on these financial statements.
See accompanying notes to the basic financial statements.

**SOUTHWEST OHIO PREPARATORY SCHOOL
HAMILTON COUNTY**

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

Cash Flows from Operating Activities:	
Cash Received from Foundation Payments	\$ 1,142,967
Cash Received from Other Unrestricted Grants	42,902
Cash Received from Economic Disadvantaged Funding	103,328
Cash Payments for Personal Services	(720,904)
Cash Payments for Purchased Services	(956,720)
Cash Payments for Supplies and Materials	(137,717)
Cash Payments for Miscellaneous	(32,804)
Net Cash Used for Operating Activities	<u>(558,948)</u>
Cash Flows from Noncapital Financing Activities:	
Cash Received from Federal and State Subsidies	628,644
Cash Received from Line of Credit	50,000
Payments for Interest on Line of Credit	(4,937)
Payments for Principal on Line of Credit	(30,063)
Cash Received from Donation:	935
Net Cash Provided by Noncapital Financing Activities	<u>644,579</u>
Cash Flows from Capital and Related Financing Activities:	
Payments for Capital Acquisitions	(85,660)
Net Cash Used for Capital and Related Financing Activities	<u>(85,660)</u>
Net Decrease in Cash and Cash Equivalents	(29)
Cash and Cash Equivalents at Beginning of Year	6,573
Cash and Cash Equivalents at End of Year	<u>\$ 6,544</u>

No assurance is provided on these financial statements.
See accompanying notes to the basic financial statements.

**SOUTHWEST OHIO PREPARATORY SCHOOL
HAMILTON COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

Reconciliation of Operating Loss to Net Cash	
Used for Operating Activities:	
Operating Loss	\$ (910,030)
Adjustments to Reconcile Operating Loss to Net	
Cash Used for Operating Activities	
Depreciation	49,756
Changes in Assets and Liabilities	
Prepaid Items	711
Intergovernmental Receivable	(27,967)
Accounts Payable	197,285
Intergovernmental Payable	255
Accrued Wages	(8,907)
Net Pension Liability and Related Deferrals	281,153
Net OPEB Asset/Liability and Related Deferrals	(141,204)
Net Cash Used for Operating Activities	<u>\$ (558,948)</u>

No assurance is provided on these financial statements.
See accompanying notes to the basic financial statements.

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

NOTE 1 – DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Southwest Ohio Preparatory Academy (the School) is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to provide for educational, literary, scientific and related teaching services of all kinds. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School. The School qualifies as an exempt organization under Section 501c (3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the School's tax exempt status.

The School operates under the direction of at least five, but not more than nine, directors. The Board of Directors is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated standards, admission standards, and qualifications of teachers. The Board of Directors controls the School's one instructional/support facility by 7 non-certified and 12 certificated full-time teaching personnel who provide services to 168 students.

St Aloysius Orphanage is the School's sponsor. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The School entered into a service agreement with Mangen1, LLC to provide certain financial and accounting services, including performing all duties required of the Treasurer of the School. See Note 13 for more information. The School also entered into a service agreement with Metropolitan Educational Technology Association (META Solutions) for technology-related services. The META Solutions board of directors consists of twelve voting members made up of twelve Superintendents from the META Solutions district membership.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School's accounting policies are described below.

A. Basis of Presentation

The School's basic financial statements consist of a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows. Enterprise fund reporting focuses on the determination of the change in net position, financial position and cash flows.

B. Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources and all liabilities and deferred inflows of resources are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the School finances and meets the cash flow needs of its enterprise activities.

No assurance is provided on these financial statements.

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The School's financial statements are prepared using the accrual basis of accounting.

Revenue resulting from exchange transactions, in which each part gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

Expenses are recognized at the time they are incurred.

D. Budgetary Process

Community schools are statutorily required to adopt a budget by Ohio Revised Code 3314.032(C). However, unlike traditional public schools located in the State of Ohio, community schools are not required to follow the specific budgetary process and limits set forth in the Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the School and its Sponsor. The contract between the School and its Sponsor does not require the School to follow the provisions Ohio Revised Code Chapter 5705; therefore, no budgetary information is presented in the basic financial statements.

E. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market value as of the date received. The School maintains a capitalization threshold of five hundred dollars. The School does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Land Improvements	10 years
Building and Improvements	25 years
Furniture, Fixtures, and Equipment	3-5 years
Vehicles	7 years

No assurance is provided on these financial statements.

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Cash and Cash Equivalents

All monies received by the School are maintained in a demand deposit account. For internal accounting purposes, the School segregates its cash into separate funds.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond fiscal year-end are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expense is reported in the year which services are consumed.

H. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. For the School, deferred outflows of resources are reported on the statement of net position for pensions and other postemployment benefits (OPEB). These deferred outflows of resources related to pensions and OPEB are explained in Note 9 and Note 10.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. These deferred inflows of resources related to pensions and OPEB are explained in Note 9 and Note 10.

I. Accrued Liabilities Payable

The School has recognized certain liabilities on its statement of net position relating to expenses, which are due but unpaid as of fiscal year-end, including:

Accounts Payable – payments due for services or goods that were rendered or received during fiscal year 2019.

Accrued Wages Payable – salary payments made after year-end to instructional and support staff for services rendered prior to the end of June, but whose payroll continues into the summer months based on the fiscal year 2019 contract.

Intergovernmental Payable – payments made after year-end for the Schools' share of retirement contributions, and Medicare associated with services rendered during the fiscal year.

J. Compensated Absences

Vacation and sick leave benefits are not carried forward to future fiscal years. The School does not pay sick leave benefits upon termination or retirement.

No assurance is provided on these financial statements.

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvements of those assets. The School applies restricted resources first when an expense is incurred for purposes which both restricted and unrestricted net position is available.

L. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the School, these revenues are primarily foundation and related payments from the State. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the School. Revenues and expenses not meeting this definition are reported as non-operating.

M. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

N. Pensions/Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension/OPEB asset/liability, deferred outflows of resources and deferred inflows of resources related to pensions/OPEB, and pension/OPEB expense, information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension/OPEB plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension/OPEB plans report investments at fair value.

NOTE 3 – DEPOSITS

At June 30, 2018, the carrying amount of the School's deposits was \$6,544 and the bank balance was \$27,123. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2019, the School's bank balance was not exposed to risk as it was covered by the Federal Deposit Insurance Corporation.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2018, consisted of intergovernmental receivables arising from pension system overpayments, foundation underpayment, and federal grants. All receivables are considered collectible in full.

No assurance is provided on these financial statements.

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

(Continued)

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2019 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Depreciable Capital Assets				
Furniture, Fixtures, and Equipment	\$ 131,426	\$ 85,660	\$ -	\$ 217,086
Total Depreciable Capital Assets	<u>131,426</u>	<u>85,660</u>	<u>-</u>	<u>217,086</u>
Less Accumulated Depreciation:				
Furniture, Fixtures, and Equipment	(20,595)	(49,756)	-	(70,351)
Total Accumulated Depreciation	<u>(20,595)</u>	<u>(49,756)</u>	<u>-</u>	<u>(70,351)</u>
Depreciable Capital Assets, Net	<u>\$ 110,831</u>	<u>\$ 35,904</u>	<u>\$ -</u>	<u>\$ 146,735</u>

NOTE 6 – LONG TERM OBLIGATIONS

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Loan Payable	\$ 185,000	\$ 50,000	\$ (30,063)	\$ 204,937	\$ 204,937

In August 2017, the School entered into a line of credit with the Mangen Family Foundation. The loan carries an interest rate of 3 percent and matures June 30, 2020. If the School goes in default and is unable to repay the loan in full, as described, the Mangen Family Foundation will have the right to recover the remaining balance of the loan, plus any expenses incurred in enforcing the loan, through the sale or transfer of any and all property owned by the School or via a lien on any and all property owned by the School.

Debt-service-to-maturity requirements to retire the notes are as follows:

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 204,937	\$ 8,445	\$ 213,382
Total	<u>\$ 204,937</u>	<u>\$ 8,445</u>	<u>\$ 213,382</u>

No assurance is provided on these financial statements.

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

(Continued)

NOTE 7 – OPERATING LEASE

On July 1, 2017, School entered into a lease for classroom space at 5555 Little Flower Avenue, Cincinnati, Ohio 45239. The lease is for a term of ten years commencing on July 1, 2017 and ending on June 30, 2027. The lease agreement contained required payments of 12,315 for fiscal year 2019. Operating lease payments to St. Therese during the fiscal year totaled \$147,785.

The following is a schedule of the future payments required under the operating lease as of June 30, 2019:

Year Ended	Payments
June 30, 2020	\$ 147,785
June 30, 2021	147,785
June 30, 2022	147,785
June 30, 2023	147,785
June 30, 2024	147,785
June 30, 2025 to June 30, 2027	295,575
Total	\$ 1,034,500

NOTE 8 – RISK MANAGEMENT

A. Property and Liability Insurance

The School is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2019, the School contracted with Cincinnati Insurance Company and Illinois National Insurance Company for commercial property liability, employee dishonesty liability, school leader’s legal liability, cyber liability, general umbrella liability, and general liability.

Coverages are as follows:

Commercial Property	\$ 500,000
Employee Dishonesty	500,000
School Leader’s Legal Liability	1,000,000
Commercial Umbrella:	
Per occurrence	5,000,000
Total per year	5,000,000
General Liability:	
Per occurrence	1,000,000
Total per year	2,000,000

Settlement amounts did not exceed coverage amounts in the past year.

No assurance is provided on these financial statements.

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

(Continued)

NOTE 8 – RISK MANAGEMENT (Continued)

B. Worker’s Compensation

The School pays the State Worker’s Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the annual total gross payroll by a factor that is calculated by the State.

NOTE 9 – DEFINED BENEFIT PENSION PLANS

Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the School’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the School’s obligation for this liability to annually required payments. The School cannot control benefit terms or the manner in which pensions are financed; however, the School does receive the benefit of employees’ services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable

No assurance is provided on these financial statements.

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(Continued)

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

Plan Description - School Employees Retirement System (SERS)

Plan Description – School non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefit:	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

On each anniversary of the initial retirement, the allowance of all retirees and survivors are increased by the annual rate of increase in the CPI-W measured as of the June preceding the beginning of the applicable calendar year. This cost-of-living adjustment (COLA) shall not be less than 0% nor greater than 2.5%. COLA’s have been suspended for calendar years 2018, 2019, and 2020.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2019, the allocation to pension, death benefits, and Medicare B was 13.50 percent and .50 percent was allocated to the Health Care Fund.

The School’s contractually required pension contribution to SERS was \$17,121 for fiscal year 2019. Of this amount, \$12,470 is reported as an intergovernmental payable.

No assurance is provided on these financial statements.

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(Continued)

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

Plan Description - State Teachers Retirement System (STRS)

Plan Description – School licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS’ fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Effective July 1, 2017, the cost-of-living adjustment was reduced to zero. Members are eligible to retire at age 60 with five year of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member’s defined contribution account or the defined contribution portion of a member’s Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

No assurance is provided on these financial statements.

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

(Continued)

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2019, plan members were required to contribute 14 percent of their annual covered salary. The School was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2019 contribution rates were equal to the statutory maximum rates.

The School’s contractually required contribution to STRS was \$64,635 for fiscal year 2019. The entire amount was paid as of fiscal year end.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportion of the net pension liability was based on the School's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	SERS	STRS	Total
Proportionate Share of the Net Pension Liability	\$ 124,595	\$ 1,148,033	\$ 1,272,628
Proportion of the Net Pension Liability Current Measurement Date	0.0021755%	0.00522124%	
Proportion of the Net Pension Liability Prior Measurement Date	0.0000000%	0.0000000%	
Change in Proportionate Share	0.0021755%	0.00522124%	
 Pension Expense	 \$ 55,345	 \$ 307,564	 \$ 362,909

No assurance is provided on these financial statements.

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

(Continued)

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

At June 30, 2019, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	\$ 6,833	\$ 26,500	\$ 33,333
Changes of assumptions	2,814	203,453	206,267
Difference between School contributions and proportionate share of contributions	71,531	777,663	849,194
School contributions subsequent to the measurement date	17,121	64,635	81,756
Total Deferred Outflows of Resources	\$ 98,299	\$ 1,072,251	\$ 1,170,550
Deferred Inflows of Resources			
Differences between expected and actual experience	\$ -	\$ 7,497	\$ 7,497
Net difference between projected and actual earnings on pension plan investments	3,452	69,615	73,067
Total Deferred Inflows of Resources	\$ 3,452	\$ 77,112	\$ 80,564

\$81,756 reported as deferred outflows of resources related to pension resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2020.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2020	\$55,894	\$296,537	\$352,431
2021	26,982	253,254	280,236
2022	(4,089)	201,188	197,099
2023	(1,061)	179,525	178,464
Total	\$77,726	\$930,504	\$1,008,230

No assurance is provided on these financial statements.

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(Continued)

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

Actuarial Assumptions - SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2018, are presented below:

Wage Inflation	3.0 percent
Future Salary Increases, including inflation	3.5 percent to 18.2 percent
COLA or Ad Hoc COLA	2.5 percent
Investment Rate of Return	7.5 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

For 2018, the mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates, and 110 percent of female rates. Mortality among disable members were based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

The most recent experience study was completed for the five-year period ended June 30, 2015.

No assurance is provided on these financial statements.

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(Continued)

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class.

The long-term expected nominal rate of return has been determined by calculating an arithmetic weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalanced uncorrelated asset classes.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	100.00 %	

Discount Rate The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
School's proportionate share of the net pension liability	\$175,501	\$124,595	\$81,913

No assurance is provided on these financial statements.

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

(Continued)

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3.00 percent
Cost-of-Living Adjustments (COLA)	0 percent effective July 1, 2017

For the July 1, 2018, actuarial valuation, post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2018, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return*</u>
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	<u>100.00 %</u>	

*The 10-Year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25% and does not include investment expenses. Over a 30-year period, STRS Ohio's investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

No assurance is provided on these financial statements.

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(Continued)

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

Discount Rate The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2018. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Based on those assumptions, STRS’ fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2018. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2018.

Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the School's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.45 percent, as well as what the School's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45 percent) or one-percentage-point higher (8.45 percent) than the current rate:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
School's proportionate share of the net pension liability	\$1,676,552	\$1,148,033	\$700,714

Social Security System

Effective July 1, 1991, all employees not otherwise covered by School Employees Retirement System or State Teachers Retirement System have an option to choose Social Security. As of June 30, 2018, no members of the Board of Education have elected Social Security. The School’s liability is 6.2 percent of wages paid.

NOTE 10 – DEFINED BENEFIT OPEB PLANS

Net OPEB Liability

The net OPEB asset/liability reported on the statement of net position represents an asset/liability to employees for OPEB. OPEB is a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. OPEB are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

No assurance is provided on these financial statements.

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(Continued)

NOTE 10 – DEFINED BENEFIT OPEB PLANS (Continued)

The net OPEB asset/liability represents the School's proportionate share of each OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan's fiduciary net position. The net OPEB asset/liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting these estimates annually.

Ohio Revised Code limits the School District's obligation for this liability to annually required payments. The School District cannot control benefit terms or the manner in which OPEB are financed; however, the School District does receive the benefit of employees' services in exchange for compensation including OPEB.

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio revised Code permits, but does not require, the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB asset/liability. Resulting adjustments to the net OPEB asset/liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The proportionate share of each plan's unfunded benefits is presented as a long-term net OPEB asset/liability on the accrual basis of accounting. Any liability for the contractually-required OPEB contribution outstanding at the end of the year is included in intergovernmental payable on both the accrual and modified accrual bases of accounting.

Plan Description - School Employees Retirement System (SERS)

Health Care Plan Description - The School contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage.

Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

No assurance is provided on these financial statements.

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(Continued)

NOTE 10 – DEFINED BENEFIT OPEB PLANS (Continued)

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2019, 0.50 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2019, this amount was \$21,600. Statutes provide that no employer shall pay a health care surcharge greater than 2.00 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.50 percent of the total statewide SERS-covered payroll for the health care surcharge.

For fiscal year 2019, the School's surcharge obligation was \$2,108. The surcharge, added to the allocated portion of the 14 percent employer contribution rate, is the total amount assigned to the Health Care Fund. The School's contractually required contribution to SERS was \$2,742 for fiscal year 2019. Of this amount, \$2,156 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2019, STRS did not allocate any employer contributions to post-employment health care.

No assurance is provided on these financial statements.

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

(Continued)

NOTE 10 – DEFINED BENEFIT OPEB PLANS (Continued)

Net OPEB Asset/Liability, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The net OPEB liability/(asset) was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability/(asset) was determined by an actuarial valuation as of that date. The School's proportion of the net OPEB liability/(asset) was based on the School's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net OPEB Liability/Asset			
Current Measurement Date	0.0022114%	0.00522124%	
Proportion of the Net OPEB Liability/Asset			
Prior Measurement Date	<u>0.0000000%</u>	<u>0.00000000%</u>	
Change in Proportionate Share	<u>0.0022114%</u>	<u>0.0052212%</u>	
Proportion Share of the Net OPEB			
Liability/(Asset)	\$61,350	(\$83,900)	(\$22,550)
OPEB Expense	\$12,506	(\$150,968)	(\$138,462)

At June 30, 2019, the School reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$ 1,001	\$ 9,800	\$ 10,801
Difference between School contributions and proportionate share of contributions	54,975	186,061	241,036
School contributions subsequent to the measurement date	<u>2,742</u>	<u>-</u>	<u>2,742</u>
Total Deferred Outflows of Resources	<u>\$ 58,718</u>	<u>\$ 195,861</u>	<u>\$ 254,579</u>
Deferred Inflows of Resources			
Differences between expected and actual experience	\$ -	\$ 4,888	\$ 4,888
Changes of assumptions	5,512	114,320	119,832
Net difference between projected and actual earnings on OPEB plan investments	<u>92</u>	<u>9,585</u>	<u>9,677</u>
Total Deferred Inflows of Resources	<u>\$ 5,604</u>	<u>\$ 128,793</u>	<u>\$ 134,397</u>

No assurance is provided on these financial statements.

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(Continued)

NOTE 10 – DEFINED BENEFIT OPEB PLANS (Continued)

\$2,742 reported as deferred outflows of resources related to OPEB resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2020	\$ 7,919	\$ 9,705	\$ 17,624
2021	8,407	9,705	18,112
2022	9,958	9,706	19,664
2023	10,000	11,883	21,883
2024	9,992	12,646	22,638
2025	4,096	13,423	17,519
Total	\$ 50,372	\$ 67,068	\$ 117,440

Actuarial Assumptions - SERS

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2018, are presented below:

No assurance is provided on these financial statements.

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(Continued)

NOTE 10 – DEFINED BENEFIT OPEB PLANS (Continued)

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Municipal Bond Index Rate:	
Measurement Date	3.62 percent
Prior Measurement Date	3.56 percent
Single Equivalent Interest Rate, net of plan investment expense, including price inflation	
Measurement Date	3.70 percent
Prior Measurement Date	3.63 percent
Medical Trend Assumption	
Medicare	5.375 to 4.75 percent
Pre-Medicare	7.25 to 4.75 percent

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years.

The most recent experience study was completed for the five-year period ended June 30, 2015.

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015 and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2015 five-year experience study, are summarized as follows:

No assurance is provided on these financial statements.

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(Continued)

NOTE 10 – DEFINED BENEFIT OPEB PLANS (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	<u>100.00 %</u>	

Discount Rate The discount rate used to measure the total OPEB liability at June 30, 2018 was 3.70 percent. The discount rate used to measure total OPEB liability prior to June 30, 2018 was 3.63 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan’s fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.62 percent, as of June 30, 2018 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

Sensitivity of the School's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.70%) and higher (4.70%) than the current discount rate (3.70%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.25% decreasing to 3.75%) and higher (8.25% decreasing to 5.75%) than the current rate.

	<u>1% Decrease (2.70%)</u>	<u>Current Discount Rate (3.70%)</u>	<u>1% Increase (4.70%)</u>
School's proportionate share of the net OPEB liability	\$74,444	\$61,350	\$50,983

No assurance is provided on these financial statements.

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(Continued)

NOTE 10 – DEFINED BENEFIT OPEB PLANS (Continued)

	1% Decrease (6.5% decreasing to 4.0 percent)	Current Trend Rate (7.5% decreasing to 5.0 percent)	1% Increase (8.5% decreasing to 6.0 percent)
School's proportionate share of the net OPEB liability	\$49,498	\$61,350	\$77,044

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2018, actuarial valuation are presented below:

Salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Payroll Increases	3.00 percent
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Health Care Cost Trends	
Pre-Medicare	6.00 percent initial, 4.00 percent ultimate
Medicare	5.00 percent initial, 4.00 percent ultimate
Perscription Drug Cost Trends	
Pre-Medicare	8.00 percent initial, 4.00 percent ultimate
Medicare	negative 5.23 percent initial, 4.00 percent ultimate

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2018, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

No assurance is provided on these financial statements.

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(Continued)

NOTE 10 – DEFINED BENEFIT OPEB PLANS (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return *</u>
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
 Total	 <u>100.00 %</u>	

* 10 year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actual rate of return, without net value added by management.

Discount Rate The discount rate used to measure the total OPEB asset was 7.45 percent as of June 30, 2018. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on health care plan investments of 7.45 percent was used to measure the total OPEB liability as of June 30, 2018.

Sensitivity of the School's Proportionate Share of the Net OPEB Asset to Changes in the Discount and Health Care Cost Trend Rate The following table represents the net OPEB asset as of June 30, 2018, calculated using the current period discount rate assumption of 7.45 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.45 percent) or one percentage point higher (8.45 percent) than the current assumption. Also shown is the net OPEB asset as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	<u>1% Decrease (6.45%)</u>	<u>Current Discount Rate (7.45%)</u>	<u>1% Increase (8.45%)</u>
School's proportionate share of the net OPEB asset	(\$71,910)	(\$83,900)	(\$93,977)

No assurance is provided on these financial statements.

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(Continued)

NOTE 10 – DEFINED BENEFIT OPEB PLANS (Continued)

	1% Decrease	Current Trend Rate	1% Increase
School's proportionate share of the net OPEB asset	(\$93,408)	(\$83,900)	(\$74,244)

NOTE 11 – EMPLOYEE BENEFITS

Insurance Benefits - The School has purchased insurance from Aetna to provide employee medical, dental, life, and vision.

NOTE 12 – PURCHASED SERVICES

During the fiscal year ended June 30, 2019, purchased service expenses for services rendered by various vendors were as follows:

Health Services	\$	58,889
Instructional Services		174,806
Management Services		222,018
Data Processing Services		42,570
Other Professional and Technical Services		236,748
Other Property Services		87,139
Rentals		147,785
Utilities		34,139
Pupil Transportation		26,076
Postage		147
Other Communication Services		3,649
Contracted Food Services		104,378
Total		\$ 1,138,344

NOTE 13 – CONTRACTED FISCAL SERVICES

The School is a party to a fiscal services agreement with Mangan1 (M1) Education Financial Services, which is an education finance consulting company. The Agreement may be terminated by either party, with or without cause, by giving the other party ninety days written notice to terminate. The Agreement provides that M1 will perform the following services:

1. Financial Management Services
2. Treasurer/Accounting Services
3. CCIP Administration

No assurance is provided on these financial statements.

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(Continued)

NOTE 13 – CONTRACTED FISCAL SERVICES (Continued)

The School made no payments for services during fiscal year 2019. As of June 30, 2019, the School owed M1 \$198,147 for services rendered.

NOTE 14 - CONTINGENCIES

a. Grants

The School received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds.

The effect of any such disallowed claims on the overall financial position of the School at June 30, 2019, if applicable, cannot be determined at this time. However, in the opinion of the School, any such disallowed claims will not have a material adverse effect on the financial position of the School at fiscal year-end.

b. Foundation Funding

Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. However, there is an important nexus between attendance and enrollment for Foundation funding purposes. Community schools must provide documentation that clearly demonstrates students have participated in learning opportunities. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end.

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE performed such a review on the School for fiscal year 2019 and determined the School was underpaid by \$18,984. This amount is reported as intergovernmental receivable on the statement of net position.

As of the date of this report, additional ODE adjustments for fiscal year 2019 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2019 financial statements is not determinable, at this time. Management believes this may result in either an additional receivable to, or a liability of, the School.

In addition, the School's contracts with their Sponsor and management company require payment based on revenues received from the State. As discussed above, additional FTE adjustments for fiscal year 2019 are not finalized. Until such adjustments are finalized by ODE, the impact on the fiscal year 2019 financial statements, related to additional reconciliation necessary with these contracts, is not determinable. Management believes this may result in either an additional receivable to, or liability of, the School.

No assurance is provided on these financial statements.

**SOUTHWEST OHIO PREPARATORY ACADEMY
HAMILTON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(Continued)

NOTE 15 – CHANGES IN ACCOUNTING PRINCIPLES

For fiscal year ending June 30, 2019, the School has implemented the following:

GASB Statement No. 83 “Certain Asset Retirement Obligations” will enhance comparability of financial statements among governmental by establishing uniform criteria for governments to recognize and measure certain asset retirement obligations, including obligations that may not have been previously reported. The implementation of this statement did not have an effect on the financial statements of the School.

GASB Statement No. 88 “Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements” improves the information that is disclosed in the notes of the governmental financial statements related to debt, including debt borrowings and direct placements. This statement also clarifies which liabilities governments should include when disclosing information related to debt. The implementation of this statement did not have a significant effect on the financial statements of the School.

NOTE 16 – RELATED PARTY TRANSACTION

M1 was under contract to provide financial management services, Treasurer/accounting services and CCIP administration, as described in Note 13. In addition, the Mangen Family Foundation has loaned funds to the School, as described in Note 6. M1 and the Mangen Family Foundation are related parties.

NOTE 17 – SUBSEQUENT EVENT

On January 17, 2020, the School’s Sponsor, St. Aloysius, placed the School on probation due to declining enrollment and increasing debt. On February 7, 2020, the School presented a plan to the Sponsor to reduce expenses, reduce debt, and increase enrollment.

No assurance is provided on these financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

No assurance is provided on these financial statements.

**SOUTHWEST OHIO PREPARATORY SCHOOL
HAMILTON COUNTY**

SCHEDULE OF SCHOOL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

LAST FISCAL YEAR (1)

	<u>2019</u>
School's Proportion of the Net Pension Liability	0.0021755%
School's Proportionate Share of the Net Pension Liability	\$ 124,595
School's Covered Payroll	\$ 62,786
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	198.44%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.36%

(1) Information prior to 2018 is not available.

Amounts presented as of the School's measurement date, which is the prior fiscal year-end.

See accompanying notes to the required supplementary information

No assurance is provided on these financial statements.

**SOUTHWEST OHIO PREPARATORY SCHOOL
HAMILTON COUNTY**

**SCHEDULE OF SCHOOL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
STATE TEACHERS RETIREMENT SYSTEM OF OHIO**

LAST FISCAL YEAR (1)

	<u>2019</u>
School's Proportion of the Net Pension Liability	0.00522124%
School's Proportionate Share of the Net Pension Liability	\$ 1,148,033
School's Covered Payroll	\$ 643,110
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	178.51%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.30%

(1) Information prior to 2018 is not available.

Amounts presented as of the School's measurement date, which is the prior fiscal year end.

See accompanying notes to the required supplementary information

No assurance is provided on these financial statements.

**SOUTHWEST OHIO PREPARATORY SCHOOL
HAMILTON COUNTY**

**SCHEDULE OF SCHOOL PENSION CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO**

LAST TWO FISCAL YEARS (1)

	2019	2018
Contractually Required Pension Contribution	\$ 17,121	\$ 8,476
Contributions in Relation to the Contractually Required Pension Contribution	\$ 17,121	\$ 8,476
Contribution Deficiency (Excess)	\$ -	\$ -
Covered Payroll	\$ 126,821	\$ 62,786
Pension Contributions as a Percentage of Covered Payroll	13.50%	13.50%

(1) Fiscal year 2018 was the School's first year of operation.

See accompanying notes to the required supplementary information

No assurance is provided on these financial statements.

**SOUTHWEST OHIO PREPARATORY SCHOOL
HAMILTON COUNTY**

**SCHEDULE OF SCHOOL PENSION CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM OF OHIO**

LAST TWO FISCAL YEARS (1)

	<u>2019</u>	<u>2018</u>
Contractually Required Pension Contribution	\$ 64,635	\$ 90,035
Contributions in Relation to the Contractually Required Pension Contribution	\$ 64,635	\$ 90,035
Contribution Deficiency (Excess)	\$ -	\$ -
Covered Payroll	\$ 461,682	\$ 643,110
Pension Contributions as a Percentage of Covered Payroll	14.00%	14.00%

(1) Fiscal year 2018 was the School's first year of operation.

See accompanying notes to the required supplementary information

No assurance is provided on these financial statements.

**SOUTHWEST OHIO PREPARATORY SCHOOL
HAMILTON COUNTY**

**SCHEDULE OF SCHOOL'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO**

LAST FISCAL YEAR (1)

	<u>2019</u>
School's Proportion of the Net OPEB Liability	0.0022114%
School's Proportionate Share of the Net OPEB Liability	\$ 61,350
School's Covered Payroll	\$ 62,786
School's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	97.71%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	13.57%

(1) Information prior to 2018 is not available.

Amounts presented for each fiscal year were determined as of the School's measurement date, which is the prior fiscal year-end.

See accompanying notes to the required supplementary information

No assurance is provided on these financial statements.

**SOUTHWEST OHIO PREPARATORY SCHOOL
HAMILTON COUNTY**

SCHEDULE OF SCHOOL'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY/(ASSET)
STATE TEACHERS RETIREMENT SYSTEM OF OHIO

LAST FISCAL YEAR (1)

	<u>2019</u>
School's Proportion of the Net OPEB Liability/(Asset)	0.00522124%
School's Proportionate Share of the Net OPEB Liability/(Asset)	\$ (83,900)
School's Covered Payroll	\$ 643,110
School's Proportionate Share of the Net OPEB Liability/(Asset) as a Percentage of its Covered Payroll	-13.05%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability/(Asset)	176.00%

(1) Information prior to 2018 is not available.

Amounts presented for each fiscal year were determined as of the School's measurement date, which is the prior fiscal year-end.

See accompanying notes to the required supplementary information

No assurance is provided on these financial statements.

**SOUTHWEST OHIO PREPARATORY SCHOOL
HAMILTON COUNTY**

**SCHEDULE OF SCHOOL OPEB CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO**

LAST TWO FISCAL YEARS (1)

	<u>2019</u>	<u>2018</u>
Contractually Required OPEB Contribution (2)	\$ 2,742	\$ 1,528
Contributions in Relation to the Contractually Required OPEB Contribution	\$ 2,742	\$ 1,528
Contribution Deficiency (Excess)	\$ -	\$ -
Covered Payroll	\$ 126,821	\$ 62,786
OPEB Contributions as a Percentage of Covered Payroll (2)	2.16%	2.43%

(1) Fiscal year 2018 was the School's first year of operation.

(2) Includes Surcharge

See accompanying notes to the required supplementary information

No assurance is provided on these financial statements.

**SOUTHWEST OHIO PREPARATORY SCHOOL
HAMILTON COUNTY**

**SCHEDULE OF SCHOOL OPEB CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM OF OHIO**

LAST TWO FISCAL YEARS (1)

	<u>2019</u>	<u>2018</u>
Contractually Required OPEB Contribution	\$ -	\$ -
Contributions in Relation to the Contractually Required OPEB Contribution	\$ -	\$ -
Contribution Deficiency (Excess)	\$ -	\$ -
Covered Payroll	\$ 461,682	\$ 643,110
OPEB Contributions as a Percentage of Covered Payroll	0.00%	0.00%

(1) Fiscal year 2018 was the School's first year of operation.

See accompanying notes to the required supplementary information

No assurance is provided on these financial statements.

Southwest Ohio Preparatory School
Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2019

NOTE 1 – NET PENSION LIABILITY

School Employees Retirement System

Changes in benefit terms:

- Fiscal year 2019 With the authority granted the Board under Senate Bill 8, the Board has enacted a three year COLA delay for future benefit recipients commencing benefits on or after April 1, 2018.
- Fiscal year 2018 The cost-of-living adjustment was changed from a fixed 3.00% to a cost-of-living adjustment that is indexed to CPI-W not greater than 2.5% with a floor of 0% beginning January 1, 2018. In addition, with the authority granted the Board under HB 49, the Board has enacted a three-year COLA suspension for benefit recipients in calendar years 2018, 2019 and 2020.

Changes in assumptions:

- Fiscal year 2017 The SERS Board adopted several assumption changes, including changes to:
- Assumed rate of inflation was reduced from 3.25% to 3.00%
 - Payroll Growth Assumption was reduced from 4.00% to 3.50%
 - Assumed real wage growth was reduced from 0.75% to 0.50
 - Rates of withdrawal, retirement and disability were updated to reflect recent experience.
 - Mortality among active members was updated to the following:
 - RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. The above rates represent the base rates used.
 - Mortality among service retired members, and beneficiaries was updated to the following:
 - RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates.
 - Mortality among disable member was updated to the following:
 - RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

No assurance is provided on these financial statements.

Southwest Ohio Preparatory School
Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2019

NOTE 1 – NET PENSION LIABILITY – (continued)

State Teachers Retirement System

Changes in benefit terms:

Fiscal year 2018 The cost-of-living adjustment was reduced to zero.

Changes in assumptions:

Fiscal year 2018 The STRS Board adopted several assumption changes, including changes to:

- Inflation assumption lowered from 2.75% to 2.50%;
- Investment return assumption lowered from 7.75% to 7.45%;
- Total salary increases rates lowered by decreasing merit component of the individual salary increases, as well as by 0.25% due to lower inflation;
- Payroll growth assumption lowered to 3.00%;
- Updated the healthy and disabled mortality assumption to the “RP-2014” mortality tables with generational improvement scale MP-2016; and
- Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

NOTE 2 – NET OPEB LIABILITY

School Employees Retirement System

Changes in benefit terms: There have been no changes to the benefit provisions.

Changes in Assumptions:

Fiscal year 2019 The discount rate used to measure the total OPEB liability was increased from 3.63% to 3.70% and the municipal bond rate was increased from 3.56% to 3.62%.

Fiscal year 2018 The discount rate used to measure the total OPEB liability was increased from 2.98% to 3.63% and the municipal bond rate was increased from 2.92% to 3.56%.

No assurance is provided on these financial statements.

Southwest Ohio Preparatory School
Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2019

NOTE 2 – NET OPEB LIABILITY– (continued)

State Teachers Retirement System

Changes in benefit terms: There have been no changes to the benefit provisions.

Fiscal year 2019 The subsidy multiplier for non-Medicare benefit recipients was increased from 1.9% to 1.944% per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium was increased effective January 1, 2019 and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 1, 2020.

Fiscal year 2018 The subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1% to 1.9% per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019..

Changes in Assumptions:

Fiscal year 2019 The discount rate was increased from the blended rate of 4.13% to the long-term expected rate of return of 7.45% based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB). Valuation year per capita health care costs were updated.

Fiscal year 2018 The discount rate was increased from 3.26% to 4.13% based on the methodology defined under GASB Statement No. 74, “*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)*” and the long term expected rate of return was reduced from 7.75% to 7.45%. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

No assurance is provided on these financial statements.

OHIO AUDITOR OF STATE KEITH FABER



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Blue Ash, Ohio 45242-1817
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Southwest Ohio Preparatory School
Hamilton County
5555 Little Flower Avenue
Cincinnati, Ohio 45239

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Southwest Ohio Preparatory School, Hamilton County, Ohio (the School), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated March 23, 2020.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the School's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the School's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



Keith Faber
Auditor of State

Columbus, Ohio

March 23, 2020

Southwest Ohio Preparatory School

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS 2 CFR 200.511(b) JUNE 30, 2019

Finding Number	Finding Summary	Status	Additional Information
2018-001	Lack of \$50,000 bond with Auditor of State	Fully resolved	FY19 bond guaranteed by new management company

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OHIO AUDITOR OF STATE KEITH FABER



**SOUTHWEST OHIO PREPARATORY SCHOOL
HAMILTON COUNTY**

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 7, 2020**